June 30, 2023

Ganesha Ecosphere Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Working capital limit	135.00	152.21	[ICRA]A (Stable); reaffirmed
Long term – Fund Based/Term Loans	-	22.29	[ICRA]A (Stable); reaffirmed
Long-term/Short-term - Interchangeable^	(37.50)	0.00	-
Short-term – Fund Based Limits	-	15.00	[ICRA]A1; reaffirmed
Short-term - Non-fund Based Limits	23.50	23.50	[ICRA]A1; reaffirmed
Long-term/Short-term – Unallocated	54.50	0.00	-
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the strong revenue growth of 15% in FY2023, accompanied by continued generation of healthy cash accruals. This apart, the ratings factor in the successful implementation of the company's greenfield project under its subsidiaries, Ganesha Ecopet Private Limited (GEPL) and Ganesha Ecotech Private Limited (GETPL). Most of the units have started commercial production and only one unit is pending completion, which would commence commercial operations from June 2023. While the capex has resulted in some deterioration in coverage indicators and is yet to see a ramp-up, it is likely to boost GEL's operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. ICRA expects the company's consolidated coverage metrics to remain comfortable, supported by the provision of adequate moratorium and ballooning repayment structure on the new term debt. Moreover, the ratings continue to derive strength from the established track record of Ganesha Ecosphere Limited (GEL) with its diversified presence in the textile industry, supported by the promoters' extensive experience of more than three decades and its large scale of operations, which provide benefits of economies of scale. Consistently healthy capacity utilisation over the years, facilitated by repeat business from a diversified client base and uninterrupted access to raw materials from an established supplier network, provides comfort.

The ratings, however, continue to be constrained by the susceptibility of GEL's profitability to volatility in virgin PSF (VPSF) prices, particularly in a declining price scenario. Further, the company is exposed to raw material availability and pricing risks, which are heightened by increasing domestic RPSF capacities, as well as regulatory developments in the recent years such as the ban on importing of polyethylene terephthalate (PET) waste. Though the company has demonstrated its ability to maintain its operating margins despite pressure on the contribution margins in the past, its ability to do so on a consistent basis, remains imperative. In this context, ICRA draws comfort from the company's established sourcing network for PET waste and a diversified client base, which have consistently supported healthy capacity utilisation level and steady profitability over the years.

The Stable outlook on the long-term rating reflects ICRA's opinion that a sustained healthy capacity utilisation and steady operating margins would support the company's ability to generate healthy cash profits, thereby supporting coverage metrics, while the company ramps up its greenfield capacities.

Key rating drivers and their description

Credit strengths

Leading market position among RPSF manufacturers – GEL continues to be the largest manufacturer of RPSF in the domestic market with an installed capacity of 96,600 metric tonnes per annum (MTPA) (decreased from 1,08,600 MTPA in FY2022 owing to the loss of capacity by a fire incident). The company has demonstrated a healthy and range-bound profitability over the years, supported by its large scale of operations, which results in economies of scale and augments bargaining power with suppliers. GEL's greenfield capital expenditure (capex), involving more than 20% increase in its RPSF capacity to ~1,20,600 MTPA, is expected to boost its operational strengths in the medium term, with a stronger market position, enhanced product portfolio and a wider geographical footprint.

Strong operational profile – GEL has a strong operational profile, characterised by a long track record of over three decades in the industry, large scale of operations, track record of repeat business from a diversified client base and an established supplier network. The resultant heathy utilisation of its installed capacities, over the years, has facilitated a compounded average growth rate of over 10% in GEL's revenues during the last 10 years (FY2013-FY2023). The company reported a growth of 16% in revenues to Rs. 1,133 crore in FY2023 from Rs. 1,021 crore in FY2022.

Comfortable debt coverage indicators – Limited reliance on debt in recent years, together with range-bound and healthy profitability, has enabled the company to maintain strong debt coverage indicators. However, with sizeable debt-funded capex recently commissioned, the company's consolidated financial leverage has increased. Nevertheless, the ballooning repayment structure for the debt being availed in subsidiaries is expected to keep the company's consolidated debt coverage indicators comfortable, despite some moderation from the current levels.

Credit challenges

Execution risks from recent capacity expansion under subsidiaries – Although the recently commissioned greenfield project under the subsidiaries is expected to strengthen GEL's consolidated operational profile, it is exposed to execution and stabilisation risks in the near term. The risks are heightened, considering the company's venture into a new, more regulated segment of food-grade PET resins, which is exposed to regulatory risks considering the stringent quality requirements. Its ability to ensure healthy scale-up of operations, will remain crucial for its return and coverage metrics, going forward. ICRA also draws comfort from the company's demonstrated track record of successful implementation and ramp-up of the past capacity expansions.

Increasing consolidated leverage because of the debt-funded capex undertaken – The company has undertaken a sizeable greenfield capex under subsidiaries involving a capital outlay of around ~Rs. 500 crore, funded through a debt of Rs. 325 crore and promoters' contribution of Rs. 175 crore. Given this, the company's consolidated financial leverage has increased, as reflected in a gearing (Total Debt/ Tangible Net Worth) and Total Debt/ OPBDITA of 0.8 times and 4.0 times, respectively as on March 31, 2023, compared to 0.2 times and 1.5 times, respectively as on March 31, 2021. GEL's capital structure has remained conservative in the past. Notwithstanding the increase in the financial leverage in FY2022 and FY2023 owing to the capex, ICRA expects the same to start improving in the current fiscal as the project has been commissioned and repayments have been started.

Susceptibility of profitability to volatility in realisations – GEL's profitability is susceptible to volatility in VPSF prices, particularly in a declining price scenario. While RPSF realisations are driven by the movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), GEL's raw material (PET waste) costs are led by its own demand-supply dynamics. Accordingly, the flexibility available with the company to pass on any increase in raw material costs is limited.

Raw material procurement and pricing risk – GEL's ability to sustain healthy capacity utilisation levels by ensuring regular availability of PET waste at competitive prices is crucial for its profitability. Given the increasing RPSF capacities in the country as well as GEL's own manufacturing capacities, the company is exposed to increasing raw material procurement and pricing risks. The risk is heightened by the regulatory developments in the recent years involving imposition of ban on import of PET waste, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations, which allows bulk procurement as well as its organised and extensive sourcing network, mitigates the risk to a large extent.

Environmental and Social Risks

Environmental considerations: Synthetic materials made from petrochemicals/crude oil derivatives are not readily biodegradable, resulting in long-term environmental pollution. Besides, environmental risk for spinners arises from the use of electricity to power the manufacturing units and use of water resources for cleaning and for other manufacturing processes. It complies with environmental regulations. However, the company would remain exposed to tightening environmental regulations related to breach of waste and pollution norms, which can lead to an increase in the operating costs and new equipment/capacity installation costs.

Social considerations: The social risk for spinning companies emanates from high labour involvement despite increasing mechanisation. The sector is exposed to labour-relation risks and risks of protests/social issues with local communities, which might impact expansion/modernisation plans. Entities in the spinning sector are also exposed to risks of disruptions due to inability to properly manage the human capital in terms of their safety and overall well-being.

Liquidity position: Adequate

GEL's liquidity position is adequate, corroborated by a cushion of more than Rs. 65 crore in its fund-based limits and free cash and bank balances as on March 31, 2023. GEL has limited repayment obligations of about ~Rs. 13-24 crore per annum in the near-to-medium term. ICRA expects the Group's cash accruals to be sufficient for servicing the debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade GEL's ratings if successful ramp-up of the recently commissioned capacities helps in achieving a sustained increase in its scale of operations and profitability from an enhanced product portfolio. Additionally, Debt/OPBDITA of less than 2 times, on a sustained basis, may trigger ratings upgrade.

Negative factors – Sustained pressure on revenues and profitability, leading to a DSCR of less than 2.0 times on a sustained basis, could exert pressure on the ratings. Further, any major debt-funded capex or an increase in the working capital intensity, leading to pressure on the liquidity position, could also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GEL. As on March 31, 2023, GEL had three wholly-owned subsidiaries, that are enlisted in Annexure-2.

About the company

Incorporated in October 1987 as Ganesh Polytex Limited, the name of the company was changed to Ganesha Ecosphere Limited (GEL) in October 2011. The company primarily manufactures recycled polyester staple fibre (RPSF) and spun yarn. The company is listed on the Bombay Stock Exchange (BSE) as well as on the National Stock Exchange (NSE).

GEL commenced production in FY1988 with texturising and dyeing of polyester filament yarn at its manufacturing unit in Kanpur (Uttar Pradesh) with an installed capacity of 391 million tonnes per annum (MTPA). In FY1995, GEL diversified into manufacturing RPSF from Polyethylene terephthalate (PET) bottle waste with an initial capacity of 6,000 MTPA in Kanpur. Over the years, the company has expanded its texturising and RPSF manufacturing capacities and has also forward integrated into manufacturing of spun yarn from RPSF. As on March 31, 2023, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturised yarn in Kanpur, 96,600 MTPA of RPSF in Kanpur, Bilaspur (Uttar Pradesh) and Rudrapur (Uttarakhand), and 7,200 MTPA of spun yarn (25,920 spindles) in Bilaspur. At present, GEL has the largest capacity for manufacturing RPSF in the domestic market. On November 19, 2019, GEL incorporated its wholly-owned subsidiary, Ganesha Ecopet Private Limited, for setting up its expansion project in Warangal (Telangana) post which the total capacity would increase to 1,20,600 MTPA for RPSF. Further, on November 17, 2020, GEL incorporated one more wholly-owned subsidiary, Ganesh Ecotech Private Limited, to facilitate acquisition of land at Warangal (Telangana) for the expansion project.

Key financial indicators (audited)

GEL's Consolidated Financials	FY2022	FY2023
Operating income	1021.4	1179.6
PAT	62.0	69.5
OPBDIT/OI	11.2%	10.8%
PAT/OI	6.1%	5.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	3.1	4.0
Interest coverage (times)	11.7	7.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2020 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jun 30, 2023	-	Mar 17, 2022	Jun 30, 2021	-
1	Fund based/Working capital limit	Long term	152.21	-	**[ICRA]A (Stable)**	-	[ICRA]A (Stable)	[ICRA]A&	--
2	Fund Based/Term Loans	Long term	22.29	22.29	**[ICRA]A (Stable)**	-			-
3	Interchangeable^	Long-term/Short-term	0.00	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A&/ [ICRA] A1&	-
4	Fund Based Limits	Short-term	15.00	-	**[ICRA]A1**	-			-
5	Non-fund Based Limits	Short-term	23.50	-	**[ICRA]A1**	-	[ICRA]A1	[ICRA]A1&	-

6	Unallocated	Long-term/ Short-term	0.00	-	-	-	[ICRA]A (Stable)/A1	[ICRA]A&/ [ICRA] A1&	-

& ***Rating Watch with Developing Implications***

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based/Working capital limit	Simple
Long term – Fund Based/Term Loans	Simple
Short-term – Fund Based Limits	Very Simple
Short-term - Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund based/Working capital limits	NA	NA	NA	152.21	[ICRA]A (Stable)
NA	Long-term – Fund Based/Term Loans	FY2018	NA	FY2027	22.29	[ICRA]A (Stable)
NA	Short-term - Fund Based limits	NA	NA	NA	15.00	[ICRA]A1
NA	Short-term - Non-fund Based limits	NA	NA	NA	23.50	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	GEL Ownership	Consolidation Approach
Ganesha Ecopet Private Limited	100.00%	Full consolidation
Ganesha Ecotech Private Limited	100.00%	Full consolidation
Ganesha Overseas Private Limited	100.00%	Full consolidation

Source: Company

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Preeti Rana
+91 124 4545 887
preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.